Research & Development Highlights

Socio-economic Series *Issue 4*

The Value of Canada's Homeownership Housing Stock

Introduction

For most Canadians, the value of their house is very important, because it is probably the largest purchase they ever make. What do homeowners feel their homes are worth? How have their perceptions changed? These questions can be answered using information gathered for CMHC over the *1985* to 1990 period.

Using Statistics Canada's Household Facilities and Equipment (HFE) survey, CMHC asked homeowners: "For how much would this dwelling sell today?" Between 1985 and 1990, four HFE surveys reached a total of about 100,000 owners with this question. [1] This issue of *Research and Development Highlights* explores their responses.

Findings

Throughout the latter half of the 1980s (with the exception of some years in Nova Scotia, Manitoba and Saskatchewan) homeowners estimated the value of their homes to be continuously increasing. However, by the end of the decade homeowners had tempered their perceptions of house value.

Average Owner-estimated House Values, HFE [1]

	1985	1987	1989	1990
		(in $000s)		
NFLD	43.6	50.3	57.5	62.9
PEI	48.3	60.7	63.8	69.2
NS	56.5	65.2	83.7	79.1
NB	47.7	54.7	63.4	68.8
QUE	62.9	84.5	103.6	109.7
ONT	90.2	143.3	196.3	208.5
MAN	61.0	81.7	79.4	84.8
SASK	60.7	73.9	67.9	70.5
ALTA	78.8	90.2	98.8	113.6
BC	93.3	104.4	145.6	174.5
CANADA	78.4	106.9	143.6	149.6

Homeowner Estimates of House Value Compared to House Price Data

On average, homeowners' estimates of their house values were on track in the latter half of the last decade. This is the finding when homeowner estimates of house values are compared to two different sources of national house sales price data (no single definitive source exists).

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1. House value data were also collected using the same question in 1988. However, since these data were collected using a different vehicle (the Shelter Cost Survey), they are not included as part of this series.

Cette publication est aussi disponible en français sous le titre *La valeur du stock de logements de type propriétaire-occupant au Canada.*

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The first, Multiple Listing Service (MLS®)[2] residential data, compiled by The Canadian Real Estate Association (CREA), provides national information on the selling prices of all homes sold by their co-operative listing service. While many Canadian homes are sold through MLS®, shifts over time in the proportion and composition of homes sold can affect this comprehensive national house price data.

The second source, *National Housing Act* (NHA) data, is based on the selling prices for all dwellings whose mortgages are insured under the *National Housing Act*. The prices of these NHA-insured houses reflect their concentration in the low-to-middle end of the market.

Average House Price Series Canada
(prices in $000s; ratio of HFE house values to prices shown in brackets)

Price Series	1985	1987	1989	1990
MLS®	80.8 (.98)	109.5 (.98)	139.4 (1.03)	137.1 (1.09)
NHA	61.8 (1.27)	74.2 (1.43)	87.6 (1.64)	88.5 (1.69)

The wide spread between average MLS® and NHA house prices grew between 1985 and 1990 as increases in NHA prices lagged behind those in the overall market.

When housing markets turned downward at the end of the decade, homeowners may have been slow to adjust their perceptions of home values

At the National Level

During the 1980s, average HEE owner-estimated house values corresponded closely to average MLS® house prices. Beginning in 1989, however, HFE homeowner-estimated dwelling values rose above MLS® sales prices. When housing markets turned downward at the end of the decade, homeowners may have been slow to adjust their perceptions of home values. (Between 1989 and 1990, MLS® price data show actual price declines in five provinces and, as shown below, an overall average decline of 1.7 per cent at the national level.) As a result, on average, homeowners estimated their house values (HFE) to be higher than what homes on the market were selling for (MLS®) by three per cent in 1989 and nine per cent in 1990, as shown above.

Increases

	1985-1987	1987-1989	1989-1990
HFE House Values	36.3%	34.4%	4.2%
MLS® Sales Prices	35.6%	27.3%	-1.7%
NHA Sales Prices	20.0%	18.2%	1.0%

By the end of the 1980s it appears that, in general, homeowners perceived that the growth rate of house values had slowed. The difference between HFE and MLS® data for the last two years of the decade

2. *MLS is a registered certification mark owned by The canadian Real Estate Association.*

likely stems from the delayed response of homeowners to changing market conditions, since the downturn in homeowner expectations (measured by HFE) lagged behind the downturn in sales prices (measured by MLS®).

At the Provincial Level

Results at the national level are the consequence of activity at the provincial level. An examination of provincial data helps to explain the 1989 change in the HFE/MLS® relationship. Homeowners in the "hottest" markets were the slowest to adjust to changing conditions. Even though HFE values were lower than MLS® prices in the majority of provinces in 1989, they were about 13 per cent higher in Ontario. In 1990, homeowners in British Columbia and, to a lesser extent, Alberta joined those of Ontario, pulling the HFE national average above that for MLS®. Between 1989 and 1990, it was Alberta and B.C. homeowners whose expected house values increased at the fastest rates, 15 and 20 per cent respectively. Generalizing, throughout the 1980s it was homeowners in the highest-priced provinces who tended to assess the values of their dwellings at levels slightly higher than average MLS® prices. Likewise, those in lower-priced provinces, particularly the Maritimes, did the reverse.

In sum, the basic pattern of estimated house values across provinces follows the pattern for house prices even though the match between average HFE house values and MLS® house prices is not as close in the provincial as it is in the national data. The lowest prices and values are consistently found in the Atlantic provinces and Saskatchewan.

Average House Values by Location

The estimated values homeowners gave their homes in the 1980s were strongly correlated to the size of the settlement in which they lived. The larger the settlement, the higher the value homeowners gave their homes and the faster their estimates of home values increased. The home value data below illustrate that the dwelling value differential associated with settlement size increased over this time period.

Average House Value and Settlement Size

Settlement Size	1985	1987	1989
500,000+	99,412	144,981	204,899
100,000-499,999	68,474	93,787	118,168
30,000-99,999	67,429	85,276	110,461
Other Urban Areas	56,130	75,125	84,834
Rural Areas	54,107	65,630	83,226
Canada Average	78,409	106,885	143,613

Homeowners in the "hottest" markets were the slowest to adjust to changing conditions

Average House Values by Mortgage Status

Since 1983, about half of Canada's homeowners have been mortgage-free. In 1985 and 1987, owners with mortgages placed greater values on their houses than did mortgage-free owners. In 1989, however, owners reported about the same value regardless of their mortgage status.

Average House Value By Owner's Mortgage Status

	1985	1987	1989
With Mortgage	81,606	111,414	143,605
Mortgage-free	75,370	101,843	143,621
Difference (%)	8.3	9.4	0.01

Conclusion

At the national level, homeowners' estimates of the values of their dwellings were very close to actual selling prices as measured by MLS® data for the 1980s. HFE homeowner-estimated dwelling values did, however, rise throughout the period to exceed MLS® sales prices by 1990. As expected, there is a wide difference between HFE homeowner-estimated home values and NHA home prices at the low-to-middle end of the market. This HFE/NHA value/price difference grew over the period.

Provincially, the match between the HEE and MLS® data is not quite as close as it is at the national level. HFE values seem to be underestimated in the Atlantic provinces, and overestimated in Ontario and, more recently, overestimated in B.C. as well. To conclude, it seems homeowners may undervalue their dwellings in lower-priced housing markets and overestimate their value in higher-priced markets.

This research highlight has been produced as a result of work completed in the Research Division of Canada Mortgage and Housing Corporation. For further information, contact: Mr. J. Engeland, Researcher of Housing Needs Analysis, at (613)748-2799 or Ms. J. Garneau, Program Planning Analyst, at (613)748-2697.

The Research and International Affairs Directorate of CMHC carries out and finances a broad range of research on the social, economic and technical aspects of housing. This CMHC Research and Development Highlight Sheet is one of a series intended to briefly inform you of the nature and scope of these activities.

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